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SUBJECT: Under Secretary Hormats Meets with NDRC
Vice Chairman Zhu Zhixin

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¶1. (SBU) SUMMARY. In a November 9 lunch meeting in Beijing, Under Secretary Robert Hormats and NDRC Executive Vice Chairman Zhu Zhixin agreed that the State Department-National Development and Reform Commission (NDRC) Dialogue should focus on long-term global strategic issues. The two discussed the scope of the dialogue, potential agenda topics, and the possibility of incorporating it into the existing Strategic and Economic Dialogue (SnED) framework. Zhu highlighted China's progression towards a more balanced economy but noted that China's immediate focus was on infrastructure development. U/S Hormats and Zhu agreed that some trade friction between major trading partners was inevitable but both countries must focus on long-term trade relations and the broader goal of reducing trade restrictions and trade barriers. U/S Hormats stressed that the U.S. remains a very open economy and emphasized the need to make progress on climate change and energy cooperation during President Obama's visit. He also stressed the importance of holding the bilateral Investment Forum well in advance of the next meeting of the SnED.
END SUMMARY.

Opening remarks

¶2. (SBU) Zhu Zhixin opened by highlighting the positive results of the previous six rounds of the State-NDRC Dialogue and his positive collaboration with former Under Secretaries Sheeran and Larson. U/S Hormats confirmed that the U.S. wants to build on this success and looks forward to increased cooperation. The Under Secretary congratulated China on the great economic progress that has been made since he first visited China in the 1970's with Henry Kissinger.

State-NDRC Dialogue

¶3. (SBU) U/S Hormats suggested incorporating the State-NDRC Dialogue into the existing SnED framework. The State-NDRC dialogue meeting could advance and coordinate topics discussed in the existing "global issues" basket. As State is not the sole relevant actor to such topics, the U.S. would like to bring in other agencies such as Treasury, USTR, and Commerce. U/S Hormats raised global development and poverty alleviation, overseas investment, energy

security, international economic institutions (excluding the multilateral development banks, on which Treasury had lead), regional economic architecture and commodities markets as potential topics for discussion, and emphasized that the goal should be to focus on a long-term strategic approach rather than merely working to resolve the problem of the moment.

¶4. (SBU) Zhu agreed that the State-NDRC Dialogue should focus on long-term global strategic economic issues, such as those proposed by U/S Hormats, and proposed that each dialogue should have just one focus at a time in order to make the discussion more productive and ensure inclusion of the right agencies. U/S Hormats agreed that the dialogue should be limited to one or two topics at a time. Zhu also supported holding the upcoming dialogues outside of the capital cities, for example, in western China, to better understand the reality of China's rural development. Finally, Zhu agreed that it was important to include other relevant agencies on both sides in the discussion.

Economic overview and stimulus plans

¶5. (SBU) Regarding USG efforts to resolve the financial crisis, U/S Hormats underscored that the U.S. economic situation has improved but there are

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still problems, including high unemployment and stress on credit markets. Consumption has decreased and the savings rate is rising. U/S Hormats said that the USG had designed the stimulus to work over 2-3 years to combat not only the recession but to address the structural causes such as the weak housing market, weak consumption and lack of confidence in the credit markets. In formulating the plan, Bernanke and Geithner paid close attention to historical examples of the Great Depression and Japan's lost decade, when stimulus packages were withdrawn too quickly.

¶6. (SBU) According to Zhu, consumption is important for China's growth and China's October financial data shows retail sales continuing to rise. In particular, the auto industry is thriving with record sales (9.6 million units) and record production (10 million units). According to data from the previous three quarters, overall GDP growth is up by 7.7 percent (4 percent consumption, 7.3 percent investment and negative 3.6 percent trade). November marks the one year anniversary of the release of China's 4 trillion Renminbi stimulus package. In developing the stimulus, China determined that the decline of external demand was a long term problem so they had focused on fostering internal demand.

Rebalancing China's economy

¶7. (SBU) In response to U/S Hormats inquiry about plans for rebalancing China's economy and growing its service sector, Zhu pointed out that China has already committed in the tenth five-year plan to reorganizing and upgrading the industrial structure. Under this plan, the secondary (or industrial) sector has developed fast and this will lead to the development of the service sector. However, China first needs to develop infrastructure to promote urbanization, Zhu said, citing the example of high passenger flow over the holidays. Increased

investment in infrastructure and improved living standards will naturally lead to the development of the service sector. Tourism within China is growing quickly and is a good example of the developing service sector and increased domestic consumption.

¶18. (SBU) Zhu emphasized that the 17th Party Congress had agreed to transform China's economy to rely equally on consumption, investment and exports. Therefore the domestic market will play an increasingly greater role. U/S Hormats agreed that more emphasis on consumption, infrastructure and investment will keep China growing despite lower international demand for export goods and will help rebalance the global economy. He stressed the importance of sustained efforts to ensure steady and substantial rebalancing.

Trade Protectionism

¶19. (SBU) Zhu insisted that maintaining an open market is an important factor in maintaining a balanced economy. Although some trade friction is inevitable, it is important to have a global attitude and focus on the long-term bilateral trade relationship

¶10. (SBU) U/S Hormats agreed that protectionism has a negative effect and acknowledged that trade disputes do occasionally arise between major trading partners, but highlighted that the United States remains a very open economy and has a policy of trying to relieve trade issues through consultation and negotiation. Working together to correct bilateral imbalances under the Pittsburgh G-20 framework will further alleviate U.S. internal pressures to erect new barriers. Progress on global trade issues led by Ambassador Kirk is critical to redress such pressures as well and it would be wise for PRC officials to work closely with him.

Environmental issues and the Investment Forum

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¶11. (SBU) U/S Hormats concluded the meeting by bringing up two points in anticipation of the Presidential visit. He emphasized the Obama Administration's determination to make progress on environmental and climate issues, to promote clean energy and to make progress on an agreement for Copenhagen. He also expressed his hope that both parties could agree to hold the next Investment Forum before the SnED in order to make the dialogue more productive.

¶12. (U) Under Secretary Hormats cleared this message.

Huntsman